

Exhibit A

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF IOWA**

In re:

MERCY HOSPITAL, IOWA CITY, IOWA, *et al.*,

Debtors.

Chapter 11

Case No. 23-00623 (TJC)

Jointly Administered

**DECLARATION OF PETER CHADWICK OF BERKELEY RESEARCH GROUP, LLC
IN SUPPORT OF RESPONSE BY SECURED BONDHOLDER REPRESENTATIVES
TO OFFICIAL COMMITTEE OF UNSECURED CREDITORS' OBJECTION TO
ENTRY OF THE PROPOSED FINAL CASH COLLATERAL ORDER**

I, Peter Chadwick, hereby declare:

1. I am a Managing Director for Berkeley Research Group, LLC ("BRG") and I make this declaration in support of the response (the "Response") by the Secured Bondholder Representatives to the *Official Committee of Unsecured Creditors' Objection to Entry of the Proposed Final Cash Collateral Order* [Docket No. 448] (the "Objection") filed by the Official Committee of Unsecured Creditors (the "Committee"). I specialize in assisting underperforming and financially distressed healthcare providers through operational turnarounds and financial restructurings with significant experience in working with hospitals and their lenders. I have served as Chief Executive Officer, Chief Restructuring Officer, Chief Financial Officer and advisor to hospital systems and other health care providers all across the country.

2. Except as otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge and, if called to testify, I would testify competently to the facts set forth in this Declaration.

3. During the first month of these Chapter 11 Cases, I directed BRG's revenue cycle management team, a group of professionals dedicated to managing and assisting other hospital

revenue cycle managers, to work with me to perform an assessment of the revenue cycle process and total claims that make up the gross receivables in the Debtors' balance sheets. In the course of our assessment, we identified certain shortcomings and factors that cast doubt on the ability to calculate with precision the Debtors' accounts receivable balances. Nonetheless, we evaluated the available accounts receivable data from both the Debtors and Revology Health ("Revology"), the Debtors' outsourced revenue cycle management provider.

4. Our preliminary analysis demonstrates that the Senior Bondholder Representatives'¹ prepetition cash and accounts receivable collateral has diminished during these Chapter 11 Cases as prepetition cash has been spent and accounts receivable balances have declined. I estimate that since the filing of these Chapter 11 Cases on August 7, 2023, the Secured Bondholder Representatives' prepetition cash and accounts receivable collateral has declined by at least \$30,869,000, as depicted on the following chart:

Pre-Petition Cash Used	
Petition Date Cash	3,350
<i>Float</i>	766
Total Petition Date Cash	4,116
<i>Beginning Pre-Petition Mercy AR (Per Revology)</i>	35,004
10/31 Pre-Petition Mercy AR	8,251
Change in AR	26,753
Total Pre-Petition Collateral Diminution	30,869
Committee Replacement Lien Proposal	
Total Pre-Petition Collateral Diminution	30,869
10/31 Mercy Post Petition AR	14,967
Replacement Lien Shortfall	15,902

¹ Unless otherwise defined herein, all capitalized terms have the meanings ascribed to such terms in the Response.

5. The total cash available, before investments, was \$4.116 million as of the Petition Date, including \$766,000 of checks in float that were declined by Hills Bank and U.S. Bank post-petition.² The entirety of the beginning cash collateral balance of \$4.116 million has been spent in these Chapter 11 Cases on operations and to fund \$2.9 million into the professional fee escrow account.

6. As of the Petition Date, Mercy Hospital's net patient accounts receivable was \$35 million according to Revology.³ This is \$7.5 million more than the Debtors reported on their Schedules of Assets and Liabilities filed with this Court on August 21, 2023 [Docket No. 135]. The \$35 million represents the net patient revenue claims owed to Mercy Hospital from payers, including government payers, less contractual denials and bad debt. Revology prepares this analysis on a claim-by-claim basis over thousands of claims. Because Revology is responsible for preparing, processing, billing, and collecting Mercy Hospital's patient revenue, I have chosen to use its determination of beginning prepetition accounts receivable of \$35.004 million. I do not currently have information available to me from Revology as to Mercy Hospital's prepetition accounts receivable balance as of October 31, 2023; therefore, I have used an ending prepetition accounts receivable balance of \$8.251 million⁴ as of October 31, 2023, which was provided to me by ToneyKorf Partners, LLC. Accordingly, the net change in Mercy Hospital's net patient accounts receivable was \$26.753 million over the same period of time.

² See 13-week cash flow forecast as of 9/8/23, attached as Appendix A hereto, week 1, row 30. The \$766,000 in returned checks is based on discussions I had with the Debtors' interim manager, ToneyKorf Partners, LLC.

³ Attached hereto as Appendix B is the Petition Date accounts receivable break-down as provided to me by Revology.

⁴ Attached hereto as Appendix C is an estimate of prepetition and postpetition accounts receivable as of 10/31/2023, which was provided to me by ToneyKorf Partners, LLC.

7. Therefore, the diminution of Senior Bondholder Representatives' prepetition cash and accounts receivable collateral was \$30.869 million (\$4.116 million change in cash-on-hand and \$26.753 million in accounts receivable).

8. Furthermore, there are material risks to further degradation of cash and accounts receivable (both prepetition and postpetition) during the weeks and months leading to an effective date for a plan. First, the Debtors will continue to fund all disbursements, both operating losses and the professional fee carve out, through at least November 30, 2023. According to the Debtors' latest 13-week cash flow budget, the Debtors will consume \$9 million through the week ending Friday, December 1, 2023, at which point the University of Iowa is required to fund the operating losses. However, professional fees will continue to be funded by the Debtors thereafter. Also according to the Debtors' latest 13-week cash flow budget, the professional fees carve out funding is \$5.175 million from the week ending December 8, 2023 through the week ending February 2, 2024. In aggregate, there is at least an estimated \$14.175 million funding need for operating losses and professional fees, which is exclusive of any costs to exit bankruptcy, including administrative expenses.

9. Second, there is a likelihood that post-petition accounts receivable, on which the Secured Bondholder Representatives were granted replacement liens, will continue to decline during November for at least the following reasons: Historically, the month of November is a seasonally low volume month for patient admissions and especially elective procedure admissions for which Mercy Hospital receives higher reimbursement (*i.e.*, higher revenue). In addition, Mercy Hospital has experienced declining patient volumes throughout the course of 2023, including further declines during these Chapter 11 Cases. This assumes there are no further physician defections during the remaining months of these Chapter 11 Cases. Physicians are a major driver

of patient volumes in Mercy Hospital, particularly higher acuity, higher reimbursement patients. There have been several important physicians that have left during these cases, including a bariatric surgeon and two hospitalists. There is also an orthopedic surgery group that has given notice of its intent to leave Mercy Hospital's network. Further physician flight is a material risk given many Mercy Hospital physicians previously left the University of Iowa to work at Mercy Hospital. A return to the University of Iowa may represent an unappealing prospect and could lead to physician turnover especially in a market with great demand for physicians.

10. Finally, the Debtors report declining accounts receivable throughout 2023, including during these cases. The average midnight census (*i.e.*, the number of admitted patients in beds as of midnight each night) has declined from 60.7 in July 2023, a month with a major holiday that typically depresses census, to 55.7 in September 2023 and 60.0 in October 2023. Any further decline in admissions would naturally lead to a decline in accounts receivable.

11. Given the material diminution of cash and accounts receivable collateral from the Petition Date to now, and the historical trend in declining cash and accounts receivable during 2023, there is significant risk that the Secured Bondholder Representatives will experience continued erosion of their Prepetition Collateral.

11. Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true
and correct to the best of my knowledge.

Executed November 5, 2023



Peter Chadwick
Managing Director
Berkeley Research Group, LLC

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Appendix A

Debtors' 13-week cash flow forecast as of 9/8/2

Mercy Hospital, Iowa City, IA, et al.	
13-Week Cash Flow Forecast - as of 9/8/23	
(\$000s)	
	Week 1
	<u>Actual</u>
	8/11/23
Receipts	
1 Medicare / Medicaid (Hospital Only)	687
2 Blue Cross (Hospital Only)	1,151
3 Other Receipts (Hospital Only)	1,446
4 Clinic-Only Receipts	434
5 <i>Patient Receipts</i>	<u>3,718</u>
6 Non-Patient Receipts	55
7 Total Cash Receipts	3,773
Disbursements	
8 Payroll	(1,487)
9 Payroll Taxes	(556)
10 Retirement Benefits (Pension/401k/457b)	-
11 Health Benefits	(218)
12 Other Payroll Disbursements	-
13 <i>People Costs</i>	<u>(2,261)</u>
14 Pharmacy	(276)
15 Med/Surg Supplies & Blood	-
16 Contractual Services	(106)
17 Professional Services	(269)
18 Lease and Rental Expense	-
19 Debt Service	-
20 Medical Malpractice Settlements	-
21 Insurance / Workers Comp	(11)
22 IT	(92)
23 Utilities	(76)
24 Clinic Expenditures	(918)
25 Other	(105)
26 <i>Operating Costs</i>	<u>(1,854)</u>
27 Professional Fees	(203)
28 Total Disbursements	(4,318)
29 Cash Flow	(545)
30 Beginning Balance (excl. Investments)	3,350
31 Net Cash Flow	(545)
32 DIP Financing	-
33 Net Transfers (Hospital Investments / MS)	1,300
34 Ending Cash Balance (excl. Investments)	4,106

Appendix B

Prepetition Accounts Receivable Balance Provided by Revology

Transaction Type	A/R as of 8/7
Adjustment	(597,562,753)
Charge	947,036,238
Non-Receivable	-
Payment	(190,362,918)
Adjustment factor	63%
Payment factor	20%
A/R factor	17%
New Adjustment	
New Payment assumption	
New A/R assumption	
Gross AR Balance	159,110,566
New AR Balance from 8/7 thru 9/29	
<i>Cash Factor:</i>	22%
Net AR Balance	35,004,325

Appendix C

Estimate of prepetition and postpetition accounts receivable as of 10/31/2023

Pre and Post Estimate of AR Realizations	10/31/2023
Prepetition Hospital AR	8,251,529
Prepetition Clinic AR	2,530,224
Total Prepetition	10,781,753
Post- petition Hosptial AR	14,966,547
Post Petition Clinic AR	1,872,620
Total Post-Petition AR	16,839,167
Total AR	27,620,920

Hospital Balance	23,218,077
Clinic Balance	4,402,843
	27,620,920